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Cover: The Imasco symbol is the initial ‘I’ from which extend branches representing an expanding group of companies related through a common endeavour, the marketing of consumer products of high quality.

Si vous désirez recevoir le rapport annuel en français, veuillez communiquer avec:

Le Secrétaire
Imasco Limitée
4, square Westmount
Montréal, Canada
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Imasco Limited operates through three divisions. Imperial Tobacco Limited, Canada's largest tobacco company, manufactures and distributes a complete range of tobacco products. Imasco Associated Products Limited is responsible for retail operations which specialize in prescription drugs, health and beauty aids, tobacco products and gifts, and sporting goods. Imasco Foods Limited manufactures, processes and distributes a variety of food products.

Directors
Paul Paré^{1,3}
John H. Coleman^{2,3}
Purdy Crawford, Q.C.^{1,2}
Yves Hudon
Anthony I. Kalhok
Peter Kilburn^{1,3}
Murray B. Koffler, C.M.
Jean-Louis Mercier
L. Edmond Ricard¹
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Officers
Paul Paré
Chairman and Chief Executive Officer
L. Edmond Ricard
President and Chief Operating Officer
Roger S. Ackman
Vice-President and General Counsel
Norman A. Dann
Vice-President, Public Relations
Roderick C. Foster, C.A.
Vice-President and Corporate Comptroller
Matthews Glezos
Vice-President and Treasurer
William J. Harris
Vice-President, Administration
Bernard W. Matte
Vice-President, Corporate Development
George G. Ross, C.A., Vice-President
Robert T. Ruggles
Vice-President, Investments
Paul K. Ryan
Vice-President and Secretary
John N. Economides, Assistant Treasurer
G. Michael Martin, C.A.
Assistant Comptroller
Rita Tahhan, Assistant Secretary

¹Member of the Executive Committee

²Member of the Audit Committee

³Member of the Salary Committee

Financial Results at a Glance	1980	1979
	Thousands of dollars	
System-wide sales	1,721,809	1,586,748
Revenues	1,150,538	1,161,526
Earnings before extraordinary items	68,228	56,407
Net earnings after extraordinary items	68,228	57,721
Earned per common share before extraordinary items (fully diluted)	\$6.55	\$5.40
Earned per common share after extraordinary items (fully diluted)	\$6.55	\$5.53
Dividends per common share	\$2.00	\$1.64
Working capital	188,115	193,887
Total assets	677,257	607,077
Shareholders' equity	344,305	297,974

To our Shareholders

Imperial Tobacco had a record year. Canadian food companies showed satisfactory gains. Retail operations progressed despite adverse economic conditions, weather problems, and heavy costs of accelerated expansion.

Net earnings for the year ended March 31, 1980 were \$68,228,000. This compares with earnings of \$56,407,000 last year before extraordinary items and \$57,721,000 after extraordinary items. Fully diluted earnings per share were \$6.55 compared with \$5.40 last year, before extraordinary items, and \$5.53 after extraordinary items.

Dividends

In May 1979, the quarterly dividend on the common shares was increased to 50 cents bringing total dividends for fiscal 1980 to \$2.00 a share. At the Board of Directors' Meeting in May 1980, the quarterly dividend was further increased to 60 cents, or \$2.40 annually.

Special Resolution

At the Annual and Special Meeting to be held on June 25, 1980, shareholders will be asked to approve a Special Resolution authorizing the Corporation to subdivide the common shares two for one. Your directors believe that this division will make the Corporation's shares more attractive to a greater number of investors. The text of the Special Resolution is included in the Management Proxy Circular mailed to all shareholders with this report.

Investments

Equity in income of associated companies was \$4,554,000 for the year, up substantially from \$407,000 last year.

Hardee's Food Systems, Inc.

In March 1980, the Preferred Stock of Hardee's held by the Corporation was converted to common shares. During the year additional common shares of Hardee's

were purchased for \$4,251,000. Our holding in Hardee's common shares is now 44%.

This is the first year we are accounting for this investment on the equity basis.

Hardee's financial results for their fiscal year ended October 31, 1979 continued to show significant gains. System-wide sales were \$750,000,000 U.S., up 33%, and net earnings were \$11,030,000 U.S., an increase of 39% over the \$7,915,000 U.S. earned in the prior year.

Interim results for the current year continue to be favourable.

Canada Northwest Land Limited

There were no changes in our holding in Canada Northwest Land during the year which remains at 21%. Revenues of Canada Northwest Land were \$5,609,000 for the year ended September 30, 1979 compared with \$8,813,000 in the previous year. Net earnings were \$3,918,000, after an extraordinary gain, compared with \$2,704,000 in the prior year.

PoP Shoppes

The investment in PoP Shoppes of America, Inc. was converted to preference shares of PoP Shoppes International Inc. This investment has been reclassified under other investments and the carrying value has been adjusted to reflect the discounted cash flow of expected future cash receipts.

Public Affairs

We have long recognized the importance of our participation in the activities of the communities in which we live and work. We encourage our employees to take an active part in civic groups and associations working to improve our social and cultural environment. In support of such groups in the past year the Corporation contributed over \$950,000 to non-profit organizations engaged in welfare, educa-

tional, cultural, recreational and community development activities across Canada. Included in this amount was a special grant of \$50,000 to the Canadian Association of Paediatric Surgeons in recognition of the United Nations Declaration of the International Year of the Child.

In addition, we believe that political parties which stand on the principles of democratic government, a united Canada and a strong private sector deserve our support. During the past year we contributed \$56,850 to federal and provincial political parties which meet these criteria and to other groups working to preserve the unity of Canada.

Augmented Pensions

While the Imasco Pension Fund for retired employees is generous in comparison with many others, we have had to acknowledge the hardship that inflation has brought to many of our pensioners, particularly to those who have been retired for many years. We have increased pensions three times in the past and effective January 1, 1980 we have granted a fourth increase ranging from \$25 to \$200 a month to employees who retired prior to January 1 1975 and consequently have suffered the greatest erosion of their incomes through inflation.

Québec Stock Savings Plan

The Québec government has introduced legislation whereby Québec citizens may avail themselves of tax savings through the purchase of new issues of shares in Québec corporations. To enable those of our employees who are most penalized by high tax rates to take advantage of any saving, we made available to them an issue of Imasco shares. Under this plan, 82 employees purchased 8,830 shares.

Board of Directors

On February 8, 1980 the number of directors was increased from 10 to 12 and

Paul Paré, Chairman and Chief Executive Officer, and L. Edmond Ricard, President and Chief Operating Officer.



Messrs. Yves Hudon and Anthony I. Kalhok were appointed to the Board. Mr. Hudon is president of Imasco Foods Limited, the division comprising food operations. Mr. Kalhok is president of Imasco Associated Products Limited, the division responsible for retail operations. He replaces Mr. George G. Ross who will be retiring before the end of the year.

Outlook

Canada faces many difficulties in 1980. Inflation, unemployment and high interest rates remain the most challenging. However, most of the areas of business in which we operate continue to show steady demand and we expect to continue the pattern of profitable growth evident in this past year.

The Duty to be Heard

As this report is being written, the Québec referendum on sovereignty-association is still before us. There is something to be learned from the campaign, something for all of us but most certainly something for the business community. First, we believe Canadians in general have become aware of what Canada is, what it means to them, and the importance of their contributing to any plans for its future. Second, we have been exposed to an exhibition of the masterful use of all forms of communications media.

If there is a positive aspect to this propaganda it must surely be the awakening of not only Québecers but of all Canadians to the necessity of eternal vigilance if we are to conserve, protect and nurture those principles of liberal democracy on which our country and our society are based.

It took a long while for Canadians to become aware of and aroused to the danger. Canada is a large country and it suffers from regional preoccupation with local interests.

What was happening in Québec was of minor interest just a few short years ago. To some, perhaps many, it seemed that

Québec was just going through another political trauma, a phenomenon not unusual in a "province which is not like the others".

But the enormity of a proposal to dismember the country eventually reached all corners of Canada.

More Canadians now know more about Québec than ever before; more has been written about Québec than ever before; and probably more politicians, both federal and provincial, have visited Québec, talked to its people and exchanged views with them since Confederation.

This communication has not all been in one direction. We in Québec have become aware of the problems in other parts of Canada as well. The discussions and the published articles on the results of a possible breakup of Canada have brought home to us how much we all depend on one another.

Everybody now knows something about the oil of Alberta, the hydro power of Québec, the alienation of British Columbia, the state of the Atlantic fisheries; and the name Hibernia promises to become a household word in the coming years.

And while we are struck with the many differences in our attitudes, languages, cultures and regional diversities, surely we must also be pleasantly surprised that with all our varieties of views we have kept the vision of one Canada.

We in the business community have learned that we must be prepared to take part in any and every public debate. There has been a most heartening participation of business leaders in these political debates. The number of businessmen who have spoken out on the social and political issues is unprecedented. We find this encouraging, and we hope it will be a trend. We have made a small beginning and we have found, perhaps to our surprise, that there is an audience for our views on all matters that affect our lives.

In the past we have all too often lost this audience more by default than by alienation. We have refused to speak out on public issues, sometimes through fear of reprisal, of saying the wrong thing, of being misunderstood or misrepresented, of unfamiliarity with the technology of the media, and even—though rarely—through modesty.

We can no longer remain silent in the flimsy shelter of such excuses. If we are fearful, we shall merit suspicion; if we are candid, we shall inspire confidence. There is an audience waiting to hear from us and there are media knocking at our doors, asking us to speak up.

We do not believe that any decision on national, regional or local issues will be a well-informed one without consideration of our views. The audience is waiting to hear from us, the media are prepared to carry our message, and we have the duty to our fellow Canadians to be heard.

On behalf of the Board of Directors



Paul Paré
Chairman and Chief Executive Officer
Montréal, May 15, 1980.

Report on operations

Total systems-wide sales for the year were \$1,721,809,000 compared with \$1,586,748,000 last year. Revenues were \$1,150,538,000 compared with \$1,161,526,000 last year.

Last year's sales and revenues include the activity of a business sold at the end of that year. Exclusion of these amounts would result in an increase of 16% in system-wide sales and of 8% in revenues.

The lower rate of increase in revenues reflects the conversion of Top Drug Mart stores from company-owned to franchised outlets and the consequent replacement of their sales with franchise fees.

Earnings from operations, before interest, income taxes and equity income were \$120,469,000 compared with \$108,497,000 last year, an increase of 11%.

Imperial Tobacco

Sales of Imperial Tobacco for the year were \$826,665,000 compared with \$741,405,000 last year, an increase of 11%.

Operating earnings for the year were \$99,137,000 compared with \$78,839,000 last year, an increase of 26%.

Imperial Tobacco continued to increase its share of the cigarette market in Canada and leads the industry in sales of the new "light" cigarettes.

As part of a continuing programme to modernize production facilities, improve productivity and enhance the working environment of manufacturing plants, capital expenditures during the year were \$16,998,000.

A disastrous blight known as blue mould struck the Ontario flue-cured tobacco crop in 1979 causing a loss of 80 million pounds out of a crop expected to come in at 230 million pounds. Imperial Tobacco took the necessary steps to ensure an adequate inventory and there will be no shortage of our products.

Retail

System-wide sales, which include those of franchised stores, were \$807,320,000 compared with \$674,314,000 last year, an increase of 20%.

Revenues were \$236,049,000 this year and \$249,092,000 last year. Operating earnings were \$19,330,000 compared with earnings of \$22,394,000 last year.

Lower earnings are the result of costs associated with the extension of Shoppers Drug Mart into Florida, lower sales of sporting goods, and the poor results of Pharmaprix Limitée. The extension of Shoppers Drug Mart into Florida is on target, but the investment to achieve this has been substantially higher than expected. The base in Florida is being rapidly established for an operation that is expected to be profitable within three years.

The UCS Group, Shoppers Drug Mart, Embassy Cleaners in Canada, and The Tinder Box International in the United States, all showed satisfactory results for the year.

Collegiate/Arlington Sports suffered from unseasonable winter weather in our major markets which are in eastern Canada. The lack of snow discouraged traditional winter buying of sports equipment and the industry was heavily affected. One of the casualties was The Outdoor Stores. Collegiate/Arlington is in process of acquiring, subject to approval of the Foreign Investment Review Agency, certain of the leases of this company.

Total capital expenditures in retail operations were \$15,970,000. However, other cash outlays associated with the store opening programme and the financing of inventories would increase the total outlay to some \$30,000,000.

Food

Food sales for the year were \$116,019,000 compared with \$197,569,000 last year.

Last year's food sales, excluding the sales of food companies which were sold, were \$101,474,000. On this basis, food sales increased 14%.

Operating earnings for the year were \$9,426,000 compared with \$13,848,000 last year. Excluding the earnings of the discontinued operations, earnings last year were \$8,258,000, showing a comparison increase this year of 14%.

Capital expenditures in our food operations this past year were \$4,134,000 and were devoted chiefly to the expansion of our meat processing facilities.

Grissol Foods is expanding its operations in meat processing, biscuits, bread products and dried soup mixes. During the year Imasco Foods Limited made an offer to acquire Lido Biscuit, an old and well-established Québec biscuit manufacturer. An offer has also been made to acquire La Fromagerie de Corneville Inc., St-Hyacinthe, Québec, the cheese operations of Anco International Corp., U.S.A. Both these acquisitions are subject to approval by the Foreign Investment Review Agency.

Unico Foods increased market penetration for its Italian-type foods, and distribution through chain and group stores now extends from Québec to British Columbia.

Outlook

Fiscal 1981 should see continued expansion and profitability in all divisions.



L. Edmond Ricard
President and Chief Operating Officer

Cigarettes

For the year ending March 31, 1980, Imperial Tobacco's sales of cigarettes outpaced the industry with a growth of 8.4%. During the same period, industry sales amounted to 63.3 billion cigarettes, an increase of a little more than 1% over the previous 12 months. This resulted in an increase in Imperial's market share from 42% to 45%.

Imperial's strength lies in the ability to market a broad range of product options, and the company has been particularly successful with products in the "light" category. The popularity of brands such as Player's Light, du Maurier Special Mild, Matinée Special Filter, Matinée Extra Mild, Medallion, Cameo Extra Mild and Peter Jackson Extra Light attest to this success. Launched in October 1979, the new Player's Extra Light is the latest in a long line of successful new brands. Lights currently account for 27% of all cigarettes sold. Imperial's range of these brands represents a 15% share of market, or 55% of all smokers who have changed to the new, milder cigarettes.

Prices and Taxes

Higher material and operating costs resulted in a cigarette price increase announced in December 1979. This was necessary to recover increased costs of manufacture and distribution.

Tax increases were announced in the past year by the provinces of Saskatchewan, Ontario, Québec, Nova Scotia, Prince Edward Island and Newfoundland. A further tax on cigarettes was announced by the federal government in April 1980.

Cigars and Cut Tobaccos

Industry sales in this segment continued to decline. Sales of fine cut cigarette tobacco decreased some 12% to 4,990,000 kg. Imperial Tobacco's sales decreased at the same rate as the industry, thus maintaining a share of market of approximately 40%.

During the past year, there were several new brand launches of fine cut tobacco, with Imperial's new Player's Light Fine Cut leading the way. This new brand has attained a 3.3% share of market.

Imperial's total pipe tobacco sales decreased by some 15%, while industry sales decreased by some 7%, resulting in a lower market share.

Sales of large cigars were down 1% while those of small cigars remained stable. Total industry sales of cigars were down 3%. Imperial's market share is now 89%.

Special Events

Imperial Tobacco continues to support major sports events and cultural activities in Canada on behalf of the Player's, Peter Jackson and du Maurier trade marks.

The inaugural "Player's International" for the Canadian Open Tennis Championships held in Toronto in August 1979 was an outstanding success with close to 52,000 spectators. Prize money for the women's section of the tournament has been increased for 1980, to \$325,000. This year's event will again take place at the National Tennis Centre in Toronto August 9-17.

In April Imperial Tobacco and the City of Montréal announced that a new ladies professional tennis tournament called the "Player's Challenge" will be staged at a new tennis centre to be constructed at Jarry Park in Montréal. This event will take place July 12-20 for \$100,000 in prize money.

This will be the tenth year that Peter Jackson Cigarettes has presented the Canadian Open Golf Championship. This year's tournament will take place at The Royal Montreal Golf Club June 16-22. Prize money of \$350,000 and the Peter Jackson trophy are at stake.

Professional women golfers will be competing in the Peter Jackson Classic at St. Georges Golf Club in Toronto, August

4-10. This event is ranked with the U.S. Ladies Open and the L.P.G.A. Tournament.

In February 1980, Imperial Tobacco announced a further \$2,000,000 financial commitment to Canada's performing arts. These funds will be distributed over the next three years in the form of cash grants through the du Maurier Council for the Performing Arts, and for the continuation of the annual du Maurier "Search for Stars" talent auditions which take place in eight Canadian cities from coast to coast. Since its inception in 1971, the du Maurier Council has become one of the largest single sources of non-government funds for the performing arts in Canada. In the past decade 97 performing groups have benefited from this assistance.

Leaf Tobacco

The 1979 Ontario flue-cured tobacco crop amounted to 150 million pounds and was sold at an average price of \$1.33 per pound. Some 105 million pounds were purchased for domestic requirements and 45 million pounds for export.

The target for the 1980 Ontario crop is 226 million pounds of which 92 million pounds have been designated for export. The guaranteed minimum average price per pound will be \$1.28.

Employee Relations

During the summer and fall, we will negotiate the renewal of our collective agreements with the Bakery, Confectionery and Tobacco Workers International Union and the Chemical Workers Union, covering the employees in our six manufacturing plants in Québec and Ontario.

Outlook

Imperial Tobacco looks forward to further growth in volume, share of market and earnings.

Joan Sisti, technician, Montréal laboratory, uses a 900 pound hogshead of the finest Canadian leaf to display some of Imperial Tobacco's popular "light" cigarette brands.



Divisional Report

Imasco Associated Products

Imasco Associated Products Limited is responsible for the management of all retail operations of the corporation.

Shoppers Drug Mart

Shoppers Drug Mart operates a group of franchised drug stores in Canada and the United States and a chain of dry cleaning establishments in Ontario under the name Embassy Cleaners.

The integration of Top Drug Mart and Shoppers Drug Mart stores continued and currently 28 Top Drug Mart stores have been converted to Shoppers Drug Mart outlets. In addition 21 new drug stores and 6 Embassy Cleaners stores were opened in Canada during the year.

In 1979 Shoppers acquired the other 50% interest in Pharmaprix Limitée and now has 100% control. Pharmaprix services 35 stores in Québec.

Satisfactory sales increases were achieved in all areas of Canada and expansion of Canadian operations is planned to continue in fiscal 1981.

Expansion in Florida continued with the opening of 14 stores in fiscal 1980 and a further 14 are planned for 1981. Results in Florida still reflect the losses which were expected to be incurred in the early years of operation of these stores. Sales in this region are on target.

Embassy Cleaners continues its profitable growth in southern Ontario.

Shoppers Drug Mart now consists of 331 Shoppers Drug Mart stores and Top Drug Mart stores, 35 Pharmaprix stores and 88 Embassy Cleaners stores in Canada, and 25 Shoppers Drug Mart stores in the United States.

The Pharmaprix acquisition and store opening and development costs reduced earnings for 1980, but the historical growth rate in earnings should be reestablished in the coming year.

The UCS Group Limited

The UCS Group Limited operates tobacco shops, gift stores and newsstands in hotels, airports, and shopping centres, as well as the traditional street stores. The company also operates tobacco departments in Woolco department stores in Canada. UCS constantly monitors new developments in the convenience retailing field and adapts these new concepts to existing and new retail locations in order to take advantage of the latest in consumer preferences. There are currently 405 stores operated by The UCS Group in Canada. The UCS Group is also responsible for the operations of The Tinder Box International, Ltd., a chain of 189 franchised and company-owned specialty tobacco shops in the United States. These stores are located in selected shopping centres where they attract the smoker or gift buyer who is looking for extra quality and extensive selection. Both sales and earnings increased in 1980, and higher levels are expected in fiscal 1981.

Collegiate/Arlington Sports

Collegiate/Arlington operates a chain of 27 sporting goods stores in Canada. During the year, new stores were opened in The Eaton Centre in Toronto and Coquitlam Mall in British Columbia. Owing to the unseasonable winter weather conditions in eastern Canada, Collegiate/Arlington Sports did not achieve sales and profit expectations. The structure of the company has been rationalized and results should improve substantially in 1981. The company is in the process of acquiring 11 of the leases formerly held by The Outdoor Stores Limited.

Outlook

Fiscal 1981 should see a significant increase in the sales and earnings from all operations of Imasco Associated Products Limited.

A hint of the many good things to add enjoyment to life, available from Imasco Associated Products, are displayed by Rollande Mongrain, United Cigar Stores, Michel Boisvert, Collegiate Sports, and Marie Gordon, Pharmaprix.



Divisional Report Imasco Foods

Imasco Foods Limited comprises a group of Canadian food companies situated in Québec and Ontario. Grissol Foods Limited, Montréal, consists of several divisions manufacturing biscuits, candies, dry bread products, dehydrated soups and processed meats.

The Grissol division, well known for its dry bread products such as bread sticks, melba toast, rusks and croûtons increased its sales during the year.

In June 1979 a fire at the Ste-Martine, Québec, plant of Grissol Foods destroyed or damaged a third of the facilities and equipment. In spite of this, production of dehydrated soup bases and other products was quickly resumed and markets were maintained.

During the year the Viau division moved to become the leading biscuit manufacturer in Québec through increased sales. New products were introduced successfully and sales distribution extended in the Maritime provinces.

Biscuits Montmagny, which specializes in biscuits and candies, has completed the major part of a modernization programme, and reorganization of its candy manufacturing facilities is also in progress. These improvements will enable Biscuits Montmagny to compete with advantage in broader markets.

Because of a one-month strike in May 1979, sales of Biscuits Montmagny show no growth this past year. However, the effects of the strike have now been overcome and sales should increase in fiscal 1981.

The Taillefer division produces traditional Québec specialties such as pâtés, cretons, and a line of high quality charcuterie under the brand name La Varenne, and smoked ham, bacon and wieners. The past year was one of continuing growth. Sales increased by some 25% and earnings were up satisfactorily. Production has been concentrated at the Magog, Québec,

plant where an expansion programme is also under way. Sales have been extended in Ontario and the Maritime provinces.

Unico Foods, which specializes in Italian-type foods, now enjoys total distribution in all major chain stores from Ontario to British Columbia. Penetration of the Québec market through chain and group stores continues at satisfactory levels and results are encouraging.

The advertising budget was increased substantially in the Ontario market in the past year, with major emphasis on Unico vegetable oil. The resulting share-of-market increases have been encouraging and this program will eventually be extended to other Canadian markets.

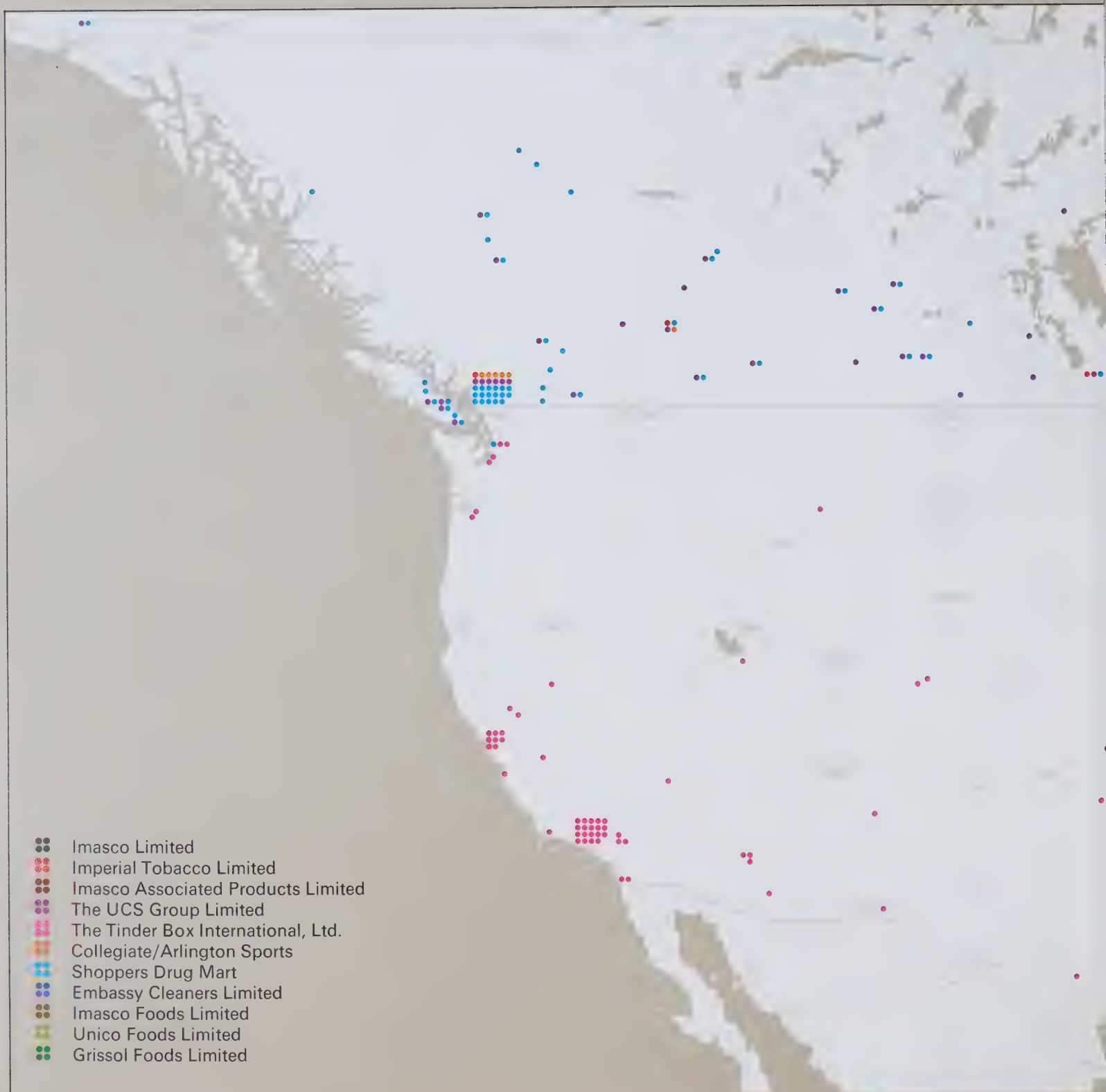
Unico is the leading packer of Canadian sunflower seed oil under its Unico label. Recognition of the many superior virtues of this product has become widespread in the last few years and sales are expected to increase steadily.

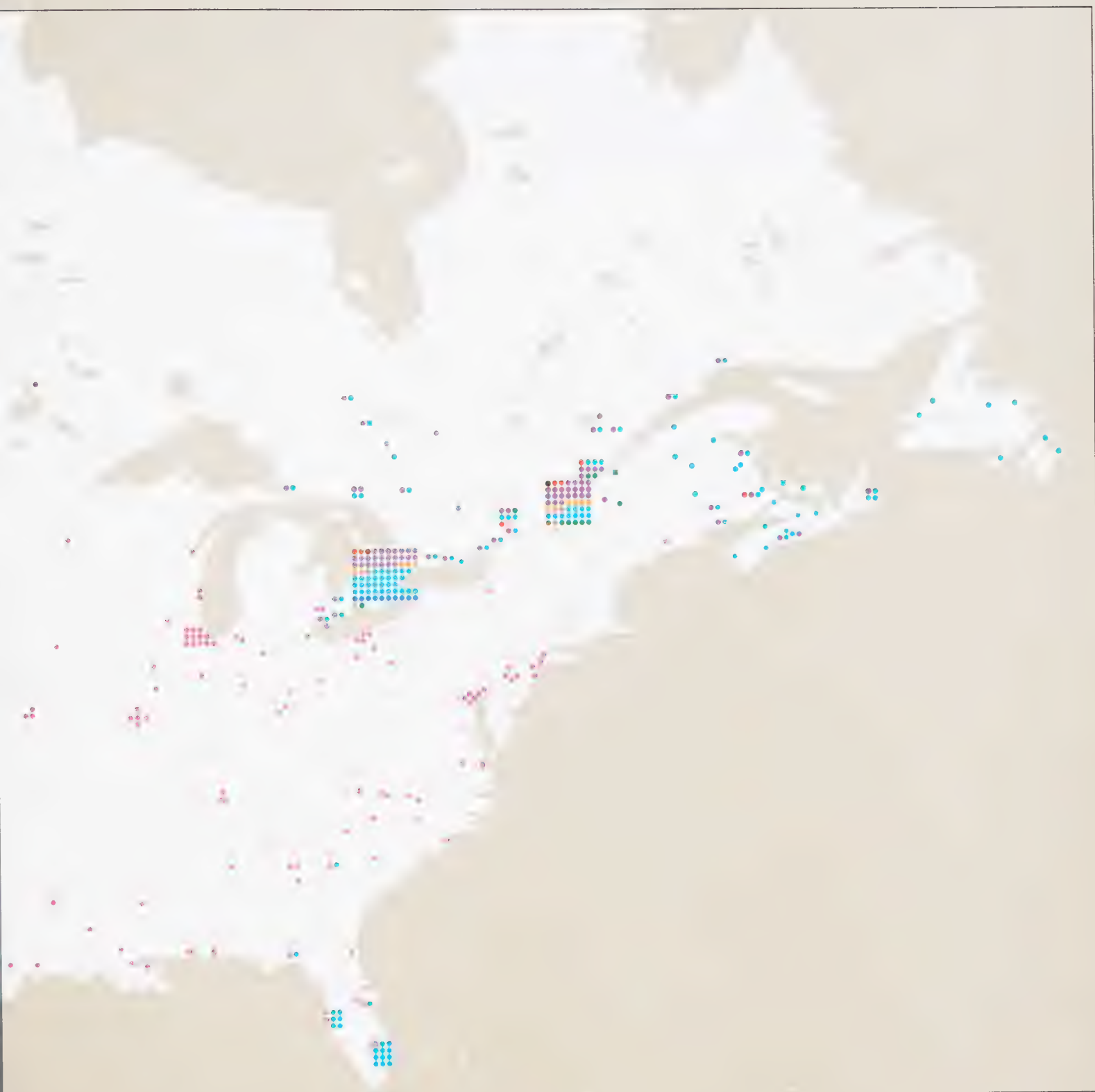
Outlook

The continuing expansion of our present food companies and the planned acquisitions of Lido Biscuit and La Fromagerie de Corneville Inc. make prospects for the future encouraging.

Jeannette Lachance of Viau, Léo Cournoyer of Taillefer, and Paul Pasquale of Unico Foods proudly stand behind selections from their companies' high quality food products.







Imasco Limited
Operating divisions

Imperial Tobacco Limited
Montréal, Québec

Manufactures and distributes cigarettes, fine cut tobaccos, pipe tobaccos, chewing tobaccos and snuff.

L. Edmond Ricard, Chairman of the Board
Jean-Louis Mercier, President
Wilmat Tennyson

Executive Vice-President
Clifford Warren, Executive Vice-President
Robert C. Bégin, C.A., Vice-President
Marius Dagneau, Vice-President
E. Peter Gage, Vice-President
Robertson M. Gibb, Vice-President
André Laporte, Vice-President
Claude Mercier, Vice-President
William J. Ross, Vice-President
Roland Bouchard, Secretary
John Gerlich, Comptroller

General Cigar Company Limited
Montréal, Québec

Manufactures and distributes cigars.

Imperial Leaf Tobacco Division of Imasco Limited

Aylmer, Ontario
Purchases and processes leaf tobacco for Imperial Tobacco and for export.

Imasco Associated Products Limited
Toronto, Ontario

L. Edmond Ricard, Chairman
Anthony I. Kalhok, President
Ronald F. Findlay, C.A.

Executive Vice-President
John J. Ruffo, Executive Vice-President
John F. Mathers, C.A., Treasurer
Stella M. Pavic, Secretary

The UCS Group Limited
Toronto, Ontario

A chain of 405 retail tobacco and gift shops.

Frederick C. Van Parys, President

The Tinder Box International, Ltd.
Santa Monica, California

A franchisor of 189 retail specialty tobacco shops in the United States.
Laurence H. Simpson, President

Collegiate/Arlington Sports
Toronto, Ontario

A chain of 27 retail sporting goods stores.
Bruce S. McCubbin, President

Shoppers Drug Mart
Toronto, Ontario

A group of 391 franchised and company-owned drug stores operating in Canada and the United States under the names of Shoppers Drug Mart, Top Drug Mart and Pharmaprix.

Murray B. Koffler, C.M.

Chairman of the Board

Jack Gwartz

President and Chief Executive Officer

Embassy Cleaners Limited
Toronto, Ontario

A chain of 88 dry cleaning outlets in Ontario.

Emile Haick, President

Imasco Foods Limited
Montréal, Québec

L. Edmond Ricard, Chairman of the Board
Yves Hudon, President

Unico Foods Limited
Toronto, Ontario

Markets over 175 Italian food products.
Edward C. Pasquale, Jr., President

Grissol Foods Limited
Montréal, Québec

Manufactures and distributes a variety of food products through several divisions.

Grissol: bread specialties and soups.

Viau: biscuits, candies.

Taillefer: prepared meat products.

Montmagny: biscuits and candies.

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheet of Imasco Limited as at March 31, 1980 and the consolidated statements of earnings, retained earnings and of changes in financial position for the year then ended. For Imasco Limited and its subsidiary companies our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those companies which are accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, based on our examination and the reports of other auditors, these consolidated financial statements present fairly the financial position of the corporation as at March 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells
Chartered Accountants
Montréal, Canada

May 15, 1980

Consolidated Statement of Earnings

	1980	1979
	Thousands of dollars	
Revenues (Note 3)	1,150,538	1,161,526
Sales and excise taxes	396,934	363,180
	753,604	798,346
Operating costs	633,135	689,849
Earnings from operations (Note 3)	120,469	108,497
Interest—net (Note 4)	13,308	11,339
	107,161	97,158
Equity in income of associated companies	4,554	407
Earnings before income taxes	111,715	97,565
Income taxes	43,125	40,455
	68,590	57,110
Minority interest	362	703
Earnings before extraordinary items	68,228	56,407
Extraordinary items	—	1,314
Net earnings after extraordinary items	68,228	57,721
Earnings per common share:		
Before extraordinary items		
basic	\$6.61	\$5.64
fully diluted	\$6.55	\$5.40
After extraordinary items		
basic	\$6.61	\$5.77
fully diluted	\$6.55	\$5.53

Consolidated Statement of Retained Earnings

Retained earnings, beginning of year	219,147	178,723
Net earnings after extraordinary items	68,228	57,721
Dividends (Note 11)	(21,058)	(17,297)
Retained earnings, end of year	266,317	219,147

The accompanying notes form an integral part of these statements.

Consolidated Balance Sheet

		1980	1979
		Thousands of dollars	
Current assets	Cash and term deposits	16,446	12,532
	Accounts and notes receivable	59,193	89,003
	Inventories (Note 5)	326,276	282,215
	Prepaid expenses	3,677	2,653
	Total current assets	405,592	386,403
Current liabilities	Bank and other short term loans	117,944	92,925
	Accounts payable and accrued liabilities	59,290	67,739
	Income, excise and other taxes	37,540	28,922
	Current portion of long term debt (Note 9)	2,703	2,930
	Total current liabilities	217,477	192,516
	Working capital	188,115	193,887
Other assets	Investments in associated companies (Note 6)	52,723	53,139
	Other investments and receivables (Note 7)	53,002	25,967
	Fixed assets (Note 8)	116,955	93,826
	Deferred charges	10,547	8,186
	Goodwill	38,438	39,556
	Total other assets	271,665	220,674
	Excess of assets over current liabilities	459,780	414,561
Other liabilities	Long term debt (Note 9)	96,921	99,967
	Deferred income taxes	18,001	15,729
	Minority interest	553	891
	Total other liabilities	115,475	116,587
	Excess of assets over liabilities	344,305	297,974
Shareholders' equity	Capital stock (Note 10)	77,988	78,827
	Retained earnings	266,317	219,147
	Total shareholders' equity	344,305	297,974

Approved by the Board,
Paul Paré, Director
Purdy Crawford, Q.C., Director

The accompanying notes form an integral part of these statements.

Imasco Limited
For the year ended March 31, 1980

Consolidated Statement of Changes in Financial Position

		1980	1979
		Thousands of dollars	
Source of funds	Earnings before extraordinary items	68,228	56,407
	Non-cash items	19,790	19,297
	Funds provided from operations	88,018	75,704
	Issuance of series A preference shares	—	24,674
	Other investments and receivables	3,125	2,995
	Sale of fixed assets	3,627	2,171
	Sale of operating units	—	16,053
	Total source of funds	94,770	121,597
Application of funds	Purchase of businesses	4,378	65,131
	Working capital acquired	(751)	(5,937)
		3,627	59,194
	Redemption of series A preference shares	839	—
	Fixed assets	37,102	31,055
	Investment in associated companies	4,251	19,387
	Dividends	21,058	17,297
	Long term debt	4,344	4,987
	Other investments and receivables	25,543	10,036
	Deferred charges	3,583	3,194
	Other	195	(86)
	Total application of funds	100,542	145,064
Working capital	Decrease in working capital	5,772	23,467
	Beginning of year	193,887	217,354
	End of year	188,115	193,887

The accompanying notes form an integral part of these statements.

Notes to the Consolidated Financial Statements

Thousands of dollars

1. Summary of accounting policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and reflect the following policies:

a) Basis of consolidation

The consolidated financial statements include the accounts of all subsidiaries. Acquisitions have been accounted for as purchases and the results of operations of acquired businesses have been included from their effective dates of acquisition.

Goodwill and related costs arising from acquisitions of subsidiaries are capitalized and amortized on a straight-line basis over their estimated lives not exceeding 40 years.

b) Foreign exchange

Foreign currency amounts have been translated into Canadian dollars on the following bases:

Current assets, current liabilities, other investments and receivables, deferred charges and non-current liabilities at exchange rates in effect at year end.

Fixed assets, investments in associated companies and goodwill at exchange rates in effect at the appropriate acquisition dates.

Earnings accounts at average exchange rates for the year, except that provisions for depreciation and amortization of goodwill are translated at rates used to translate the related assets.

Net unrealized gains are deferred.

c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined for each division substantially as follows:

Imperial Tobacco: Average cost

Retail: Retail inventory method

Food: First-in, first-out

d) Investments in associated companies

Investments in associated companies, representing significant minority interests, have been accounted for on the equity method based on their latest audited financial statements. The excess of the cost of the investments over the underlying book value of the associated companies' net assets at the dates of purchase are ascribed to productive assets, where applicable, or goodwill. Goodwill is amortized on a straight-line basis over 25 years.

e) Other investments and receivables

Receivables are stated at cost. Investments are shown at cost or have been reduced to their estimated present value.

f) Fixed assets

Fixed assets are stated at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 14 to 40 years for buildings and from 5 to 14 years for equipment. Leasehold improvements are amortized on a straight-line basis over the term of the respective leases.

g) Deferred charges

Deferred charges are stated at cost less amortization accumulated on a straight-line basis. The amortization periods for the principal elements of deferred charges are as follows:

Retail store opening costs from the second to the fourth year of operation.

A lump sum payment made in 1972 for increased pension benefits over 18 years.

Other deferred charges from 3 to 10 years.

Notes to the Consolidated Financial Statements

1980 **1979**

Thousands of dollars

1. Summary of accounting policies (cont'd)	<p>h) Income taxes Income taxes are accounted for using the tax-allocation basis under which income taxes are provided in the year transactions affect net income regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowances for income tax purposes in excess of depreciation recorded in the financial statements.</p> <p>i) Pension plans The companies have pension and retirement plans available to substantially all their employees. Current service costs are charged to earnings as they accrue. The unfunded liability for past service benefits is estimated at \$26,400 as at March 31, 1980 and will be funded and charged to earnings, with interest, over periods up to 15 years.</p>																																																																																																						
2. Acquisitions	<p>During the year the retail division acquired two businesses for a total cash consideration of \$4,378. Prior to March 31, 1980 the corporation entered into agreements to purchase the assets of three other enterprises for an approximate consideration of \$9,079. These agreements are subject to the approval of the Foreign Investment Review Agency and are not recorded in these financial statements.</p>																																																																																																						
3. Earnings from operations	<table><tr><td>Revenues</td><td></td><td></td><td></td></tr><tr><td>Imperial Tobacco</td><td></td><td>826,665</td><td>741,405</td></tr><tr><td>Retail—sales</td><td></td><td>204,779</td><td>221,855</td></tr><tr><td>—franchise fees and other income</td><td></td><td>31,270</td><td>27,237</td></tr><tr><td>Food</td><td></td><td>116,019</td><td>197,569</td></tr><tr><td>Interdivisional transactions</td><td></td><td>(28,195)</td><td>(26,540)</td></tr><tr><td></td><td></td><td>1,150,538</td><td>1,161,526</td></tr><tr><td>Earnings from operations</td><td></td><td></td><td></td></tr><tr><td>Imperial Tobacco</td><td></td><td>99,137</td><td>78,839</td></tr><tr><td>Retail</td><td></td><td>19,330</td><td>22,394</td></tr><tr><td>Food</td><td></td><td>9,426</td><td>13,848</td></tr><tr><td></td><td></td><td>127,893</td><td>115,081</td></tr><tr><td>General and administration expenses</td><td></td><td>(8,153)</td><td>(6,584)</td></tr><tr><td>Others (charges) gains</td><td></td><td></td><td></td></tr><tr><td>Write-down of investment (Note 7)</td><td></td><td>(3,974)</td><td>—</td></tr><tr><td>Foreign exchange</td><td></td><td>2,146</td><td>—</td></tr><tr><td>Recovery from the pension funds of discontinued operations</td><td></td><td>2,083</td><td>—</td></tr><tr><td>Insurance proceeds in excess of book value of assets destroyed</td><td></td><td>474</td><td>—</td></tr><tr><td></td><td></td><td>(7,424)</td><td>(6,584)</td></tr><tr><td>Earnings from operations</td><td></td><td>120,469</td><td>108,497</td></tr><tr><td>Amortization of goodwill and deferred charges deducted in arriving at earnings from operations by division</td><td></td><td></td><td></td></tr><tr><td>Imperial Tobacco</td><td></td><td>449</td><td>301</td></tr><tr><td>Retail</td><td></td><td>1,592</td><td>1,475</td></tr><tr><td>Food</td><td></td><td>629</td><td>795</td></tr><tr><td></td><td></td><td>2,670</td><td>2,571</td></tr></table>			Revenues				Imperial Tobacco		826,665	741,405	Retail—sales		204,779	221,855	—franchise fees and other income		31,270	27,237	Food		116,019	197,569	Interdivisional transactions		(28,195)	(26,540)			1,150,538	1,161,526	Earnings from operations				Imperial Tobacco		99,137	78,839	Retail		19,330	22,394	Food		9,426	13,848			127,893	115,081	General and administration expenses		(8,153)	(6,584)	Others (charges) gains				Write-down of investment (Note 7)		(3,974)	—	Foreign exchange		2,146	—	Recovery from the pension funds of discontinued operations		2,083	—	Insurance proceeds in excess of book value of assets destroyed		474	—			(7,424)	(6,584)	Earnings from operations		120,469	108,497	Amortization of goodwill and deferred charges deducted in arriving at earnings from operations by division				Imperial Tobacco		449	301	Retail		1,592	1,475	Food		629	795			2,670	2,571
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Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements			1980	1979	
			Thousands of dollars		
4. Interest—net	Interest on long term debt		9,481	9,760	
	Other interest expense		4,406	2,076	
	Income from other investments		(579)	(497)	
			13,308	11,339	
5. Inventories by division	Imperial Tobacco				
	Finished goods		73,440	74,372	
	Raw material, supplies and work in process		187,520	154,463	
			260,960	228,835	
	Retail		52,626	42,432	
	Food		12,690	10,948	
			326,276	282,215	
		Retail and food inventories consist mainly of finished goods.			
6. Investments in associated companies		% Interest in common shares	Carrying value		
	Companies	1980	1979	1980	1979
	Hardee's Foods Systems, Inc.				
	Common	44	22	43,201	20,215
	Convertible preferred shares	—	—	—	15,792
	Canada Northwest Land Limited	21	21	9,522	8,711
	PoP Shoppes of America, Inc. (Note 7)	—	48	—	8,421
				52,723	53,139
		In March, the investment in preferred shares of Hardee's Food Systems, Inc. was converted on a share-for-share basis into common shares.			
	7. Other investments and receivables	Investments		26,940	3,019
Receivables			26,062	22,948	
			53,002	25,967	
Included in investments are 2,000,000 cumulative redeemable non-voting variable rate (1980—10.7%) second preference shares with a par value of \$10.00 each of BAC Cosmetiques Inc. (a related company) purchased during the year and 478,000 cumulative redeemable non-voting 5% second preference shares with a par value of \$25.00 U.S. each of PoP Shoppes International Inc. These latter shares were obtained during the year in exchange for an investment previously held in PoP Shoppes of America, Inc. and included in investments in associated companies in 1979. This investment has been written down by \$3,974 to reflect the discounted cash flow of the expected future cash receipts.					

Notes to the Consolidated Financial Statements

1980 1979

Thousands of dollars

8. Fixed assets	Land	2,670	3,050
	Buildings	42,438	40,757
	Equipment	136,915	112,975
	Leasehold improvements	30,748	23,198
		212,771	179,980
	Accumulated depreciation	95,816	86,154
	Net fixed assets	116,955	93,826
	Net fixed assets by division		
	Imperial Tobacco	52,349	41,108
	Retail	49,410	39,964
	Food	15,196	12,754
		116,955	93,826
	Depreciation expense by division		
	Imperial Tobacco	5,213	4,509
	Retail	6,473	5,020
	Food	1,492	2,455
		13,178	11,984
9. Long term debt	8½% sinking fund debentures Series A due March 15, 1991	25,550	26,600
	10½% sinking fund debentures Series B due August 1, 1995	25,500	26,700
	10¼% sinking fund debentures Series C due October 22, 1990 (\$20,000 U.S.)	23,924	23,188
	7½% five year notes due February 15, 1982 (\$15,000 U.S.)	17,943	17,391
	9% sinking fund debentures due July 2, 1992	6,876	7,683
	Other long term obligations	2,141	3,457
		101,934	105,019
	Less: sinking fund debentures held in Treasury current portion	(2,310) (2,703)	(2,122) (2,930)
		96,921	99,967
	Required payments during the next five years, including annual sinking fund payments on the Series A and B debentures of \$1,050 and \$900 respectively and \$2,392 on the Series C debentures commencing in 1982, amount to: 1981, \$2,703; 1982, \$22,678; 1983, \$4,752; 1984, \$5,066; 1985, \$5,010.		
10. Capital stock	The authorized capital of the corporation consists of:		
	a) 1,650,000 6% cumulative preference shares.		
	b) an unlimited number of preference shares, issuable in series, with the stated value for each series to be fixed by the Board of Directors.		
	c) an unlimited number of common shares.		
	Outstanding at March 31, are:		
	1,191,888 6% preference shares	5,800	5,800
	— series A preference shares (1979—333,792)	—	11,683
	10,351,537 common shares (1979—10,041,716)	72,188	61,344
		77,988	78,827
	Weighted average number of shares outstanding used in determining earnings per common share		
	Basic	10,263,901	9,777,772
	Fully diluted	10,361,125	10,375,508

Notes to the Consolidated Financial Statements

1980 **1979**

Thousands of dollars

10. Capital stock (cont'd)	During the year, 309,821 series A preference shares were converted to an equal number of common shares, 23,971 series A preference shares were redeemed for \$35.00 each and 8,830 common shares were purchased at \$45.00 each for cancellation. In March, the corporation made an offer of unissued common shares to certain employees to enable them to benefit from the tax legislation of the Province of Québec. A total of 8,830 shares were issued under this offering for a price of \$45.00 each.		
11. Dividends	6% cumulative preference shares	348	348
	Series A preference shares	70	933
	Common shares	20,640	16,007
	Tax paid to create tax paid undistributed surplus	—	9
		21,058	17,297
	The trust agreements relating to the Series A, B and C debentures contain restrictions regarding the payment of dividends. At March 31, 1980, \$172,516 of retained earnings was free from such restrictions.		
12. Lease commitments	The companies have commitments with respect to real estate leases most of which are for terms of from 5 to 15 years. The minimum annual rental commitment under such leases is approximately as follows:		
		Rental commitment	Rental commitment
		assumed by franchisees	Net rental commitment
	1981	25,280	17,214
	1982	24,763	16,137
	1983	23,901	16,036
	1984	22,815	15,631
	1985	20,872	14,944
	The minimum annual rental commitment as listed above does not give effect to escalation and percentage-of-sales clauses in certain of the leases. Net rentals under these operating leases including escalation and percentage-of-sales clauses amounted to \$10,247 (1979—\$10,254).		
13. Contingent liability	The corporation has provided guarantees to various banks in respect of borrowing by franchisees. The total of these guarantees at March 31, 1980 was \$24,654 of which the outstanding indebtedness of the franchisees was \$16,354.		
14. Other information	<p>a) Classes of business</p> <p>The Board of Directors has determined at a meeting and has recorded in the minutes thereof the following classes of business based upon the functional and managerial organization of the company:</p> <p>Imperial Tobacco—manufactures and distributes a complete range of tobacco products.</p> <p>Retail—retail operations which specialize in prescription drugs, health and beauty aids, tobacco products and gifts, and sporting goods.</p> <p>Food—manufactures, processes and distributes a variety of food products.</p> <p>b) The Companies Act (British Columbia)</p> <p>These consolidated financial statements include the accounts of all subsidiary companies but only some of the principal operating subsidiaries have been named elsewhere in this report. A list of all of the subsidiaries of the corporation is available for inspection at the corporation's registered office in British Columbia.</p> <p>c) Remuneration of directors and officers</p> <p>Aggregate remuneration paid during the year to directors as directors was \$70. Remuneration of officers, including directors who are also officers, aggregated \$3,165.</p> <p>d) Prior year's figures</p> <p>Certain of these have been reclassified to conform to the current presentation.</p>		

**Statistical Highlights
Five Year Review for years ended March 31**
1980 1979 1978 1977 1976

Thousands of dollars, except "per common share" statistics

Sales and earnings	System wide sales	1,721,809	1,586,748	1,070,687	1,044,751	950,941
	Revenues	1,150,538	1,161,526	1,049,421	1,031,642	941,223
	Depreciation	13,178	11,984	8,050	8,456	7,526
	Earnings from operations	120,469	108,497	78,224	70,226	71,021
	Interest	13,308	11,339	7,955	8,756	6,648
	Equity income	4,554	407	879	—	—
	Income taxes	43,125	40,455	27,486	26,252	27,677
	Earnings before extraordinary items	68,228	56,407	43,078	34,921	36,516
	Net earnings after extraordinary items	68,228	57,721	40,734	35,215	34,564
	Earnings per common share, before extraordinary items, fully diluted	6.55	5.40	4.42	3.58	3.74
Dividend record	On preference shares	418	1,281	348	348	348
	On common shares	20,640	16,016	13,921	13,071	12,555
	Per common share	2.00	1.64	1.44	1.35	1.30
Funds provided	From operations	88,018	75,704	55,242	47,568	46,611
Capital expenditures	On fixed assets	37,102	31,055	17,170	17,118	12,749
Financial position	Current assets	405,592	386,403	354,351	326,930	295,759
	Current liabilities	217,477	192,516	136,997	144,107	111,715
	Working capital	188,115	193,887	217,354	182,823	184,044
	Investments in associated companies	52,723	53,139	35,856	15,173	—
	Fixed assets (before depreciation)	212,771	179,980	140,584	146,375	146,392
	Fixed assets (less depreciation)	116,955	93,826	70,221	74,973	75,816
	Long term debt	96,921	99,967	95,511	95,920	79,768
	Excess of assets over liabilities	344,305	297,974	232,876	206,411	186,055
Shareholders' equity	Preference shareholders	5,800	17,483	5,800	5,800	5,800
	Common shareholders	338,505	280,491	227,076	200,611	180,255
	Per common share	32.70	27.93	23.48	20.74	18.64

Statistical Highlights – Continuing Operations
Five Year Review for years ended March 31

		1980	1979	1978	1977	1976
		Thousands of dollars, except "number of outlets"				
Imperial Tobacco	Sales	826,665	741,405	655,010	605,411	560,089
	Sales and excise taxes	396,934	363,180	330,258	316,378	293,942
	Earnings from operations	99,137	78,839	68,322	60,891	60,700
	Inventories	260,960	228,835	191,554	161,065	145,778
	Fixed assets—net	52,349	41,108	31,898	26,190	25,752
	Depreciation expense	5,213	4,509	3,330	2,938	2,904
	Capital expenditures	16,998	14,208	9,572	4,185	3,967
Retail	System-wide sales	807,320	674,314	218,085	192,185	166,714
	Revenues: sales	204,779	221,855	198,276	178,257	156,996
	franchise fees	31,270	27,237	1,164	819	624
	Earnings from operations	19,330	22,394	6,896	5,437	6,505
	Inventories	52,626	42,432	44,738	36,081	29,027
	Fixed assets—net	49,410	39,964	12,296	11,230	9,893
	Depreciation expense	6,473	5,020	1,783	1,306	1,161
	Capital expenditures	15,970	12,903	3,045	2,485	1,851
	Number of outlets					
	Pharmacies	391	365	64	67	66
	Tobacco, sundry and gift	594	560	545	527	493
	Sporting goods	27	25	21	17	15
	Dry cleaners	88	84	—	—	—
		1,100	1,034	630	611	574
	Company owned	524	502	471	461	441
	Franchised	576	532	159	150	133
		1,100	1,034	630	611	574
Food	Sales	116,019	101,474	83,011	63,824	55,714
	Earnings from operations	9,426	8,258	5,072	4,257	5,125
	Inventories	12,690	10,948	8,677	8,348	6,240
	Fixed assets—net	15,196	12,754	11,028	10,440	8,833
	Depreciation expense	1,492	1,200	1,132	891	721
	Capital expenditures	4,134	3,094	1,811	2,358	1,763

Note: The above divisional statistical highlights exclude the operating results of businesses sold prior to fiscal 1980.

Corporate Information

Auditors	Deloitte Haskins & Sells Chartered Accountants 1 Place Ville-Marie Montréal, Canada H3B 2W3
Transfer agents and registrars	Montreal Trust Company, Halifax, Montréal, Toronto, Winnipeg, Regina, Calgary, Vancouver
Stock exchange listings	Montréal, Toronto, Vancouver and London, England
Banks	The Royal Bank of Canada Canadian Imperial Bank of Commerce The Bank of Nova Scotia National Bank of Canada Bank of Montreal The Continental Bank Morgan Guaranty Trust Company of New York Bank of America
Financial calendar 1980/1981	Annual and Special Meeting: June 25, 1980 Quarterly reports mailed: August, November, February Dividend dates: Common shares Quarterly: June, September, December, March 6% preference shares Semiannually: September, March Interest on debentures payable: Series A 8½%: March 15, September 15 Series B 10%: February 1, August 1 Series C 10¼%: April 22, October 22

